

Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-10 FRB-03 INR-10 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 FS-01 ABF-01 PA-01
/122 W

-----109911 212128Z /75

R 211325Z FEB 78
FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC 5854
INFO AMEMBASSY PARIS
AMEMBASSY BRASILIA
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 RIO DE JANEIRO 0780

PARIS FOR OECD

E.O. 11652: N/A
TAGS: EGEN, BR
SUBJECT: GETULIO VARGAS FOUNDATION VIEWS ECONOMIC OUTLOOK

1. SUMMARY: RIO CONSUL GENERAL AND E/C SECTION CHIEF
DISCUSSED SHORT-TERM OUTLOOK WITH SENIOR GETULIO VARGAS
FOUNDATION (GVF) DIRECTORS CARLOS LANGONI AND JULIAN
CHACEL ON FEBRUARY 15. NOW-COMPLETE 1977 GDP FIGURES
(TO BE PUBLISHED IN NEXT FEW WEEKS) SUGGEST COOLING-OFF
ACTIONS BY GOB HAVE HAD MUCH STRONGER IMPACT THAN PREVIOUSLY
BELIEVED. LIMITED PAYOUT IN INFLATION CONTROL, WHILE
EXPLAINABLE IN TERMS OF LAG EFFECTS, REPRESENTS DISAPPOINT-
MENT AND, WORSE, POTENTIAL SOCIAL PROBLEM. DESPITE SUCH
PRESSURES TO RESUME "NORMAL" GROWTH, BOTH ECONOMISTS
EXPECT SIMONSEN TO CONTINUE TO GIVE ANTI-INFLATION FIGHT
THE HIGHEST PRIORITY. BOTH WERE OUTSPOKEN IN CRITICIZING
PROTECTIONIST IMPORT POLICY AS RESPONSIBLE FOR NUMEROUS
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DISTORLIONS AND INFLATIONARY PRESSURES. "ACROSS THE
ECONOMY THERE ARE THOUSANDS OF BOTTLENECKS" CAUSED BY
IMPORT CONTROLS. END SUMMARY.

2. LANGONI (DIRECTOR OF GVF ECONOMICS GRADUATE SCHOOL)
AND CHACEL (DIRECTOR OF RESEARCH BRANCH OF GVF) LUNCHEON
FEBRUARY 15 WITH CONSUL GENERAL DEXTER AND E/C SECTION

CHIEF, DISCUSSING CURRENT SITUATION AND RECENT ECONOMIC AND POLITICAL DEVELOPMENTS. ASKED ABOUT THEIR INCLUSION IN VARIOUS LISTS OF POTENTIAL MINISTERS IN A FIGUEIREDO CABINET, BOTH DENIED ANY SUCH AMBITIONS -- THOUGH CHACEL WAS MORE CONVINCING THAN LANGONI. IN FACT, LANGONI NOTED THAT HE IS ASSOCIATED WITH A NEW PROJECT SIMILAR TO CONCLAP IV (SEE RIO 5330), WHICH WE ASSUME WILL KEEP HIS NAME IN LIGHTS. THE NEW VEHICLE IS THE BIENNIAL CONGRESS IN JULY, 1977, OF THE BRAZILIAN EXPORTERS' ASSOCIATION (ABE), AND LANGONI IS IN CHARGE OF PREPARING POSITION PAPERS AND OTHER DOCUMENTATION (AS HE WAS FOR CONCLAP). REGIONAL PREPARATORY MEETINGS WILL KICK OFF IN APRIL, AND LANGONI EXPECTS THAT "ALL THE BASIC ASSUMPTIONS" UNDERLYING PRESENT POLICY WILL BE OPEN TO EXAMINATION. HE NOTED THAT THIS WILL EXTEND TO EXCHANGE RATE POLICY AND THE OVERALL COMMITMENT TO EXPORT-LED GROWTH, ACKNOWLEDGING THAT THE CONTINUING VALIDITY OF THE LATTER HAS AGAIN BEEN QUESTIONED IN SOME CIRCLES (I.E., IPEA, ACCORDING TO PRESS REPORTS). HE AGREED THAT THE TIMING OF THE CONGRESS WAS OPPORTUNE IN TERMS OF THE ADVENT OF A NEW ADMINISTRATION -- THOUGH BOTH HE AND CHACEL WERE FIRM IN STATING THAT PRESENT POLICIES WILL CONTINUE OVER NEXT TWO-THREE YEARS (WITH POSSIBLE EXCEPTION OF AGRICULTURE, WHERE RE-EMPHASIS IS BEING STRONGLY PUSHED).

3. ASKED WHETHER PREVIOUSLY-PUBLISHED ESTIMATES OF 1977 LIMITED OFFICIAL USE

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PERFORMANCE (BASED ON 11-MONTH DATA) WOULD NOT BE MODIFIED CONSIDERABLY BY DECEMBER RESULTS (INCLUDING UPTURN IN AUTO INDUSTRY), CHACEL SAID "YES -- BUT NOT IN THE DIRECTION YOU EXPECT." DATA HAVE JUST BEEN ASSEMBLED BY GVF (AND APPROVED BY IBGE -- AS HIGHEST STATISTICAL AUTHORITY IN BRAZIL) FOR FULL YEAR, AND SHOW LOWER GDP GROWTH THAN PREVIOUSLY ESTIMATED. INSTEAD OF 5.0 PERCENT OVERALL GROWTH, THE AMOUNT IS ONLY 4.7 PERCENT; MORE STRIKINGLY, INDUSTRIAL OUTPUT DID NOT GAIN 2.9 PERCENT AS EARLIER THOUGHT, BUT ONLY 2.3. PERCENT TO BE SURE, CHACEL SAID, PART OF THE PROBLEM IS THAT THE INDUSTRIAL INDEX WAS DESIGNED IN 1970, AND THE INDUSTRIAL STRUCTURE HAS EVOLVED CONSIDERABLY SINCE THEN. IN PARTICULAR, THE INDEX DOES A LESS-THAN-SATISFACTORY JOB OF PORTRAYING CAPITAL-GOODS OUTPUT. NONETHELESS, HE CALLED THIS GROWTH "DISAPPOINTING" AND SAID THAT BRAZIL REALLY COULD NOT AFFORD TWO YEARS AT SUCH LOW GROWTH. HE SAID THIS GDP DATA WOULD BE PUBLISHED IN FEBRUARY CONJUNTURA ECONOMICA, PROBABLY REACHING SUBSCRIBERS IN EARLY MARCH. WHETHER ANY GOB OFFICIAL WOULD MENTION THEM EARLIER WAS UNCERTAIN.

4. ASKED IF BRAZIL WERE NOT, IN FACT, HEADING FIRMLY INTO A SECOND SLOW-GROWTH YEAR, CHACEL AGREED AND SAID

THAT THE GOB'S ANTI-INFLATION COMMITMENT WAS ABSOLUTE.
THIS DID HAVE TROUBLESOME IMPLICATIONS FOR UNEMPLOYMENT,
AND THE PAYOUT IN TERMS OF LOWER INFLATION WAS LIMITED
THUS FAR. WHEN WE NOTED AN EXPECTATION OF A LAG BETWEEN
SLOW GROWTH AND A REDUCTION OF INFLATION, LANGONI SAID
THEIR RESEARCH HAD SUGGESTED 11-12 MONTHS IN BRAZIL'S
RECENT HISTORY -- BUT THAT PRESENT SLOW GROWTH DIDN'T
LEAVE ONE WITH A COMFORTABLE WILLINGNESS TO AWAIT RESULTS.

5. DISCUSSING THE REASONS FOR SUCH BALKY INFLATION, BOTH
ECONOMISTS AGREED IN BLAMING IN PART BRAZIL'S PROTECTIONIST
IMPORT POLICIES. THE INTENSE EFFORT TO CORRECT FOR THE
POST-1973 PAYMENTS IMBALANCES HAD LED TO SEVERE DISTORTIONS:
"ACROSS THE ECONOMY, THERE ARE THOUSANDS OF BOTTLENECKS,"
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THESE COULD BE READILY ELIMINATED BY A FREER PLAY OF
ECONOMIC FORCES AND MORE UNINHIBITED ACCESS TO THE WORLD
MARKET. ADMITTEDLY, THE INFLATIONARY EFFECT OF IMPORT
BARRIERS WAS SOMEWHAT OFFSET BY THE CUMULATIVE PRIOR
DEPOSITS; THIS MONETARY-POLICY ELEGANCE DID NOT, HOWEVER,
COMPENSATE FOR THE DISTORTIONS SPREAD THROUGHOUT THE
ECONOMY. BALANCE OF PAYMENTS CONSIDERATIONS WERE NOT
ONLY HAMPERING IMPORTS BUT ALSO REDUCING TECHNOLOGY
TRANSFER. ASKED IF HE WERE THINKING OF THE RECENT CDI
PROHIBITION OF CERTAIN ROYALTY PAYMENTS (ON WHICH WE HAVE
AN AIRGRAM IN PREPARATION), CHACEL AGREED. HE ALSO
CONFIRMED THAT THE RECENT DECISION ON MINICOMPUTER
PRODUCTION, BLOCKING FOREIGN INVESTMENT IN THIS AREA

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COME-00 EB-08 EA-10 FRB-03 INR-10 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 FS-01 ABF-01 PA-01
/122 W

-----109820 212123Z /75

R 211325Z FEB 78

FM AMCONSUL RIO DE JANEIRO
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(SEE RIO 5907), WAS OF CONCERN. WHEN WE RECALLED PRESS REPORTS OF "NATIONAL SECURITY" CONSIDERATIONS IN THAT DECISION, THEY SAID THEY FAILED TO UNDERSTAND SUCH A RATIONALE: ONE COULD CITE SUCH REASONS FOR ANYTHING AND EVERYTHING.

6. BOTH GVF DIRECTORS SEEMED DISCOURAGED ABOUT THE DIRECTION OF BRAZILIAN DEVELOPMENTS. CHACEL NOTED HIS CONCLUSION THAT THE HEYDAY OF THE TECHNOCRAT IN GOB POLICYMAKING APPEARED TO BE WANING, AND PREDICATED THAT THE UPCOMING BATCH OF SENIOR OFFICIALS WOULD BE "ENTIRELY POLITICIANS" A LA ANTONIO CARLOS MAGALHAES. LANGONI AGREED. THEY ALSO CITED DELFIM NETTO'S PUBLICIZED CONCLUSION THAT "ONE MUST MAKE POLITICS." SPEAKING OF DELFIM, BOTH CONCLUDED THAT HE HAS AN INCREASINGLY-GOOD CHANCE AT THE GOVERNORSHIP. "WHEN HE CAME BACK IN DECEMBER, HIS CHANCES WEREN'T GOOD," BUT THINGS HAD GONE EXCEEDINGLY WELL IN RECENT WEEKS.
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JUST AS DELFIM WAS A TECHNOCRAT SUCCESSFULLY TURNING "POLITICIAN," SIMONSEN HAS ALSO PROSPERED AND NOW IS HIGHLY LIKELY TO CONTINUE IN THE NEW ADMINISTRATION.
DEXTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978RIODE00780
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780078-0854
Format: TEL
From: RIO DE JANEIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780232/aaaabbbs.tel
Line Count: 208
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 30d5b7d2-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3535110
Secure: OPEN
Status: NATIVE
Subject: GETULIO VARGAS FOUNDATION VIEWS ECONOMIC OUTLOOK
TAGS: EGEN, ECON, BR, (LANGONI, CARLOS), (VARGAS, GETULIO)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/30d5b7d2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014